

# **SPRING 2000 REVENUE SOURCES BOOK**

**Alaska Department of Revenue  
Tax Division**

**April 7, 2000**



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# STATE OF ALASKA

## DEPARTMENT OF REVENUE

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April 11, 2000

The Honorable Tony Knowles  
Governor of Alaska  
P.O. Box 110001  
Juneau, Alaska 99811-0001

Dear Governor Knowles:

Breakup is here, the halibut season is under way, the baseball season has opened and oil prices are as volatile as ever. It's spring, and all is normal in the world.

We started this fiscal year with Alaska North Slope crude oil at \$17.19 a barrel. We watched as the market ran up to a 10-year high of \$32.30 a barrel on March 7, then watched some more as prices eased their way down to levels of \$24 a barrel last week. Despite the roller-coaster ride of the past year, we are fairly confident that near-term oil prices will be higher than the long-term average. That should result in an average market price for ANS crude for FY 2000 of \$23.28 a barrel. The year-to-date average is \$22.84 a barrel, with just a couple of months left in the fiscal year.

Our Spring 2000 Revenue Sources Book, which I present to you today, forecasts an ANS price for FY 2001 at \$22.76 a barrel. We expect OPEC will maintain its production at levels sufficient to average these prices for the next year. It will take that long for increased production to bring down prices closer to historic averages. After that, we believe the higher production – by OPEC and non-OPEC countries – will move prices closer to what we've averaged over the past decade. We forecast ANS crude at \$19.42 a barrel in FY 2002 and \$18.53 over the next few years. That's about \$1 a barrel higher than the five-year moving average for ANS crude for the past decade, reflecting what we believe is a small shift upward due to OPEC's commitment to manage production.

The higher price of this year and Fiscal 2001 will help ease our reliance on the Constitutional Budget Reserve Fund to pay for essential public services. If the annual General Fund budget remains at \$2.3 billion, we expect the state will need \$305 million from the CBRF for FY 2000, with a \$413 million draw in FY 2001 before it climbs back up to \$736 million in FY 2002. Certainly, prudent budget reductions and new revenues would help reduce the draw on the CBRF.

One thing people need to remember if they want to set a cap on annual draws from the CBRF is that the money serves two purposes. First, it covers the difference between revenues and expenditures. Second, it also helps bridge the state's cash-flow needs during the fiscal year, particularly at the start of each year when expenses flow out faster than revenue comes in. It's a fact of Alaska's budget that more of the General Fund revenue comes in later in the year. If the Legislature wants to set a cap on the annual CBRF draw, they need to add \$300 million to the annual forecasts in this report to accommodate cash-flow needs. That extra draw is not a permanent loan from the CBRF; it's a temporary loan during the year that gets settled on the books at the end of each fiscal year.

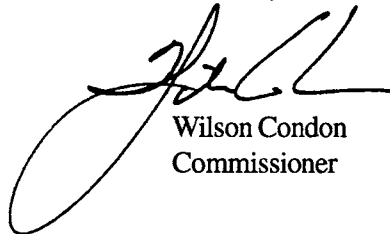
Without significant changes in the state budget or new revenues, our forecast shows the CBRF hitting empty in November 2004, 10 months later than we forecast last fall when oil prices were much lower.

As we think about the state's fiscal picture, and as we look ahead to our fiscal future, it's important to note that unrestricted oil revenue is no longer the largest source of state revenue. Unrestricted oil revenue is third on the list behind total investment income and federal funds for FY 1999, 2000 and 2001. That, in and of itself, is not necessarily bad, as long as the public realizes modern Alaska may have been built on oil revenue but it is more reliant today on its investment income and federal aid.

Finally, new oil production will help maintain a reasonable flow of dollars to the state treasury. We forecast that "new" oil – fields already discovered and scheduled to come on-line – will comprise one-quarter of Alaska's production by FY 2005. Whatever fiscal policies are discussed need to recognize the importance of new oil to Alaska's fiscal future and the reality that such new oil is taxed at a lower severance rate than the older, larger fields at Prudhoe Bay and Kuparuk.

I hope you, your staff and the Legislature find this report informative and helpful. I look forward to working with you and the Legislature to develop a strong fiscal plan for Alaska's future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Wilson Condon', with a large, stylized loop at the end.

Wilson Condon  
Commissioner

# Contents

<u>I. INTRODUCTION</u> .....	5
Glossary .....	5
What's in This Report? .....	7
 <u>II. EXECUTIVE SUMMARY</u> .....	 9
A. Total Revenue .....	9
B. <i>Unrestricted General Purpose Revenue</i> .....	12
C. Oil Revenue Forecast .....	14
D. Oil Production Forecast .....	17
E. Longer-Term Unrestricted Revenue Outlook .....	18
F. Constitutional Budget Reserve .....	21
 <u>III. OIL REVENUE FORECAST</u> .....	 25
Unrestricted Oil Revenue .....	25
Restricted Oil Revenue .....	30
 <u>IV. NON-OIL TAXES, USER FEES AND FEDERAL FUNDS</u> .....	 31
Unrestricted NoTUFF Revenue .....	31
Restricted NoTUFF Revenue .....	33
 <u>V. INVESTMENT REVENUE</u> .....	 35
Unrestricted Investment Earnings .....	36
Restricted Investment Earnings .....	37

## Tables

1. Total Revenue .....	11
2. Total State Revenue, Actual FY 1999 and Projected FY 2000-2001 .....	13
3. <i>Unrestricted General Purpose Revenue</i> .....	14
4. Delivered Price for ANS Crude Oil	
Average Market Price, U.S. West Coast, Far East and Wellhead .....	16
5. ANS Production .....	19
6. Total <i>Unrestricted General Purpose Revenue</i> , Actual FY 1999 and Projected 2000-2005. ....	20
7. "New" Discoveries of Oil as Percentage of Total Oil .....	22
8. Difference Between <i>Unrestricted General Purpose Revenue</i> and General Fund Budget - "The Gap" .....	24
9. CBRF Depletion Matrix .....	25
10. Unrestricted Oil Revenue Projections, Actual FY 1999 and Projected FY 2000-2005. ....	27
11. Spring 2000 Forecast Assumptions .....	29
12. ANS Oil and NGL Production .....	30
13. Restricted Oil Revenue, Actual FY 1999 and Projected FY 2000-2001 ...	32
14. Unrestricted Non-Oil Taxes, User Fees and Federal Funds, Actual FY 1999 and Projected FY 2000-2005 .....	33
15. Tobacco Tax Allocations. ....	34
16. Fisheries Business Tax .....	34
17. Restricted Non-Oil Taxes, User Fees and Federal Funds, Actual FY 1999 and Projected FY 2000-2001. ....	35
18. Total Investment Revenue, Actual FY 1999 and Projected FY 2000-2001 .....	37
19. Constitutional Budget Reserve, Actual FY 1999 and Projected FY 2000-2001 .....	39
20. Alaska Permanent Fund. ....	41

## Figures

1. Total Revenue, FY 1999. ....	12
2. Total Revenue, FY 2000. ....	12
3. Total Revenue, FY 2001. ....	13
4. ANS West Coast and Futures Market Oil Prices .....	17
5. Cumulative Average ANS Oil Price (January 1986 - February 2000) Moving Average and Confidence Intervals .....	18
6. ANS Historical and Projected Production. ....	19
7. Economic Limit Factor for Fields With ELF Greater Than Zero. ....	21
8. New Oil as a Percentage of Projected Oil. ....	22
9. Anticipated Life of the Constitutional Budget Reserve Fund. ....	25
10. OPEC Production, January 1999-February 2000 .....	29
11. Breakdown of FY 2000 Authorized Federal Funding. ....	36

# I. INTRODUCTION

## Glossary

The governor's Office of Management and Budget and the Legislative Finance Agency agreed last year to organize all sources of state funds according to their allowable uses under federal and state law. If, for example, federal highway funding can be used only for road projects, it doesn't make sense to list it with state tax revenue that the legislature can spend on anything it wants. The goal is to describe the budget in specific and complete terms that are understandable to anyone who wants to ask: Where does the state get its money? This book focuses on the portion of that money that is revenue to the state.

Revenue listed in Table 1 on Page 11 shows the revenue available for appropriation in each respective fiscal year, including oil revenues, other state taxes, federal funds and investment earnings. The table does not include balances in existing funds such as the Constitutional Budget Reserve Fund or the Permanent Fund Earnings Reserve Account. The revenue that went into those funds was counted in previous years and should not be counted twice. The balances are available and would be counted as state spending, however, if the legislature decided to appropriate the money. Nor does it include money received from the sale of bonds. Although bond proceeds are new money available to spend, they must be repaid out of future revenues.

- **General Fund Unrestricted Revenue:** This is all of the state's unadjusted revenue not limited by state or federal law, debt or trust restrictions, or other state or federal requirements or customary practice. It includes taxes, user fees and some investment earnings but does not include any federal money or Permanent Fund earnings. See Appendix C on our web site, [www.revenue.state.ak.us/tax](http://www.revenue.state.ak.us/tax).
- **Unrestricted General Purpose Revenue:** Most legislative and public debate over the budget each year centers on this category. It used to be called *Net Disposable General Fund Unrestricted Revenue*. It includes General Fund Unrestricted Revenue minus such items as state fisheries tax revenue shared by law and customary practice with municipalities and regional aquaculture associations. It also can include two significant additions – dividends or transfers to the state General Fund by the Alaska Industrial Development and Export Authority and the Alaska Housing Finance Corporation. See Table 3 on Pages 14-15.
- **NoTUFF:** This stands for Non-Oil Taxes, User Fees and Federal Funds. It includes non-oil corporate income tax revenues, motor fuel and cigarette taxes, and other taxes and user fees collected by the state. It also includes all federal funding directed to the state, including construction money, such as for roads and airports, and operating money, such as for Medicaid and job training programs. Some of this money is restricted and some is unrestricted. See Tables 14 and 17 on Pages 33 and 35.
- **Federal Revenue:** When the federal government gives money to states, it restricts how that money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding. See Page 36.

- **Dedicated Revenue:** Revenue restricted by the Alaska Constitution fits into this category. Other than the Permanent Fund, which was approved by voters in 1976, all of the other revenues in this category existed in some form before statehood and therefore are not subject to the constitutional prohibition against dedicated funds. They include such accounts as the Fish and Game Fund, Disabled Fisherman's Fund and Public School Fund. See Fall 1999 Revenue Sources Book, Page 53.
- **Trust Fund Revenue:** This includes funds held by the state in trust for specific beneficiaries. Examples include public employees and teachers retirement funds, the Advance College Tuition Program and the Alaska Mental Health Trust Fund. See Fall 1999 Revenue Sources Book, Page 62.
- **Statutorily Restricted Revenue:** Though not dedicated in the constitution, this revenue is earmarked in state law for specific purposes. Examples include University of Alaska tuition payments, marine highway receipts, payments to various revolving loan funds, airport revenues and public corporation receipts, such as AHFC and AIDEA. See Fall 1999 Revenue Sources Book, Page 53.
- **Customarily Restricted Revenue:** Though not set out in statute, these revenues have historically been restricted by the legislature. The largest item in this category is Permanent Fund earnings in excess of what is needed each year for dividends and inflation proofing. Though the money could be spent as *Unrestricted General Purpose Revenue*, the legislature has always chosen to retain it in the Permanent Fund's Earnings Reserve Account or appropriate it to the fund's principal.
- **Permanent Fund Statutory Income:** This is the total realized gain and loss of all Permanent Fund investment transactions during the year, plus interest and dividends earned by the fund. Though the legislature, by law, may appropriate the earnings for any purpose it chooses, the historical practice has been to restrict the use of realized income for Permanent Fund dividends, inflation proofing, and retained earnings. The annual Permanent Fund dividend is based on statutory income. See Fall 1999 Revenue Sources Book, Page 75.
- **Permanent Fund GASB (or Market) Income:** Under rules adopted by the Government Accounting Standards Board, the Permanent Fund's income – and that of any other government fund – includes the difference between the purchase price of the investments and their market value at a given point in time, plus any dividends or interest earned on those investments. Under GASB rules, the Permanent Fund does not have to sell the investment to count the gain or loss as it changes value. It's called "marking to market," that is, measuring the value of the fund's investments by the current market price. This can produce a much different picture than *Permanent Fund Statutory Income*, which does not reflect fluctuating investment values until the assets are sold. See Fall 1999 Revenue Sources Book, Page 74.
- **Constitutional Budget Reserve Fund:** Created by voters in 1990, the Constitutional Budget Reserve Fund holds the proceeds from the resolution of oil and gas tax and royalty disputes since July 1, 1990. It generally requires a three-quarters majority vote of each chamber of the legislature to withdraw money from the fund. See Page 39.
- **Bond Authorizations:** These are the proceeds received by the state or one of its public corporations from the sale of bonds to finance construction projects or purchases. It must be paid back – just as homeowners must pay back the money they borrow to buy a house. This money is not included in our revenue forecast. See Fall 1999 Revenue Sources Book, Page 63.



# What's in this report?

Twice a year, the Department of Revenue forecasts the future price and production of Alaska North Slope crude oil and all other revenue sources feeding the state treasury. This Spring 2000 Revenue Sources Book is an abbreviated version of our fall forecast. Please refer to our Fall 1999 Revenue Sources Book and updated appendices on our web site for a complete forecast. This book is organized into the five following sections:

**I. Introduction**

**II. Executive Summary**

**III. Oil Revenue**

This includes oil and gas severance taxes, corporate income taxes, property taxes and royalties.

**IV. Non-Oil Taxes, User Fees and Federal Funds (NoTUFF) Revenue**

This category includes alcohol, tobacco, fisheries, estate and motor fuel taxes, non-oil corporate income taxes, user fees, federal funds, university tuition and several other revenue sources.

**V. Investment Revenue**

This includes investment earnings from the Alaska Permanent Fund, the Constitutional Budget Reserve Fund, the General Fund and other state investments.

Each section includes explanations of restricted funds – money that is restricted by the constitution, state statute and customary practice or federal designation. And, explanations of unrestricted funds – money generally available for appropriation each year.

## Changes to Actual FY 1999 Revenue as Reported in the Fall Forecast

The fall 1999 forecast presented actual revenues for FY 1999. A careful comparison with the state's FY 1999 Comprehensive Annual Financial Report (CAFR) and Office of Management and Budget (OMB) documents indicate differences for some restricted revenue categories between the two reports. We have changed our reporting for the items indicated below:

(\$ Million)				
Category	Fall Revenue Sources Book	CAFR/ OMB	Difference	Spring Forecast Tables
Federal Funds	1,376.2	1,029.0	347.2	1, 2, 17
Bond Authorizations	199.6	Not Revenue	199.6	1, 2, 17
Statutorily Restricted				
Program Receipts <sup>(1)</sup>	179.2	Not Revenue	179.2	1, 2, 17
Statutorily Restricted				
Program Receipts <sup>(2)</sup>	50.4	Internal Receipts	50.4	1, 2, 22
CBRF Earnings	119.9	114.5	5.4	1, 2, 18, 19
CBRF Settlements <sup>(3)</sup>	50.0	55.4	(5.4)	1, 2, 13, 19
Permanent Fund				
Net of Distributions	770.5	804.0	(33.5)	1, 2, 18

<sup>(1)</sup> International Airport bond proceeds.  
<sup>(2)</sup> International Airport internal receipts.  
<sup>(3)</sup> Includes principal and interest.

### **Why the Differences?**

- The federal funds reported as actual in the fall forecast were those appropriated by the federal government and authorized for expenditure. The CAFR reports only those federal funds actually received and spent.
- Bond authorizations are not considered revenue in the CAFR since they are offset by a repayment obligation.
- There was a misallocation of interest between CBRF settlements and earnings in the Fall 1999 Sources Book.
- The Permanent Fund revenue reported as actual in the Fall 1999 Sources Book was actually the net income after deducting \$33.5 million in operating expenses from revenue.

### **Major Changes to Forecast Revenues from the Fall Forecast**

#### **Unrestricted Revenues Will Be Higher**

- Oil prices have been much higher than expected. For this spring update we have assumed the higher price environment will continue at least through 2001, followed by a gradual return to the longer-term prices forecast last fall.
- Oil production has been a bit lower than forecast so far in FY 2000. We assume the plateau rate of just over one million barrels per day for the next five years will be on average about 6,000 barrels per day lower than we assumed last fall.
- Oil corporate income tax collections will be a bit lower in FY 2000, based on information from lower than expected estimated payments. We are forecasting somewhat higher collections in FY 2001 than last fall in line with our higher oil price assumptions.
- Other unrestricted revenues are expected to be about the same as the fall projections.

#### **Restricted Revenues Will be Higher**

- A multi-year settlement of back oil taxes increased FY 2000 restricted revenue deposited in the CBRF. This requires lowering last fall's estimates for future settlement deposits into the CBRF.
- The Permanent Fund has had higher investment earnings than projected last fall.

# II. EXECUTIVE SUMMARY

## A. Total Revenue

Table 1 summarizes the state's total revenue outlook by major revenue component based on the governor's requested FY 2001 budget.

**Table 1. Total Revenue**

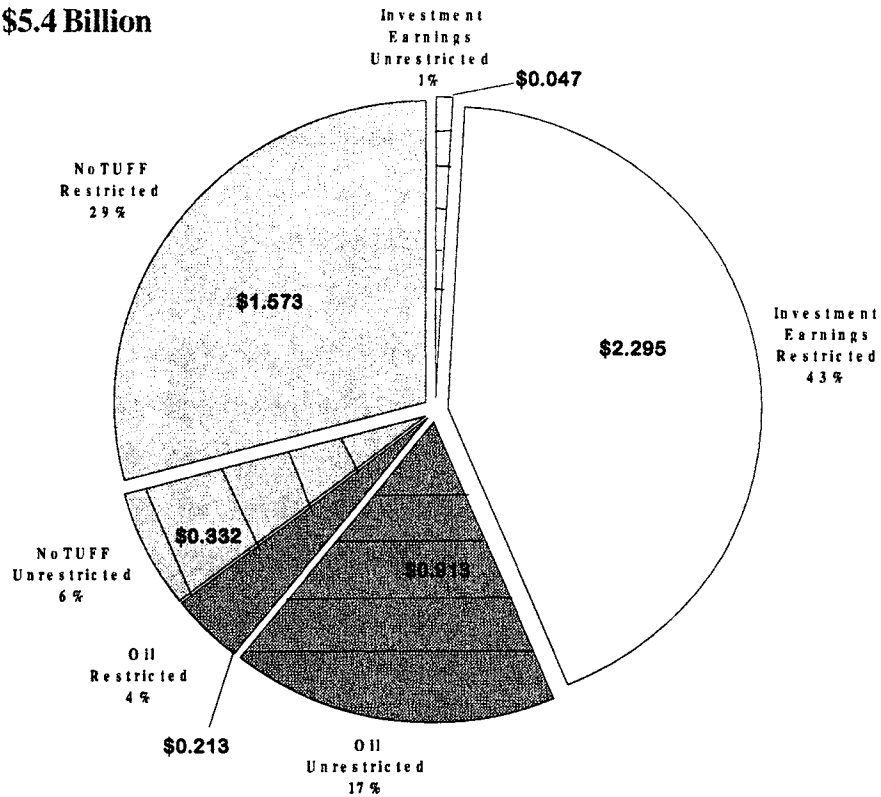
\$ Million		<b>Actual</b>		
<b>Oil Revenue</b>		<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>
<u>Unrestricted</u>				
Property Tax	48.8	46.8	44.2	
Corporate Petroleum Tax	145.1	145.0	185.0	
Severance Tax	371.1	662.4	589.0	
Royalties (including Bonuses)	<u>348.2</u>	<u>702.1</u>	<u>667.5</u>	
<b>Subtotal</b>	<b>913.2</b>	<b>1,556.3</b>	<b>1,485.7</b>	
<u>Restricted</u>				
Royalties to Permanent & School Trust Fund	157.9	264.1	267.7	
Settlements to CBRF	<u>55.4</u>	<u>460.0</u>	<u>80.0</u>	
<b>Subtotal</b>	<b>213.3</b>	<b>724.1</b>	<b>347.7</b>	
<b>Subtotal</b>	<b>1,126.5</b>	<b>2,280.4</b>	<b>1,833.4</b>	
<b>Non-Oil Taxes, User Fees and Federal Funds (NoTUFF)</b>				
<u>Unrestricted</u>				
Sales/Use Tax	93.6	92.8	92.6	
General Corporate Tax	53.8	52.0	50.0	
Fish Tax <sup>(1)</sup>	21.5	27.8	19.5	
Other Tax	4.5	5.6	6.1	
Licenses & Permits	62.9	62.7	63.3	
Charges for Services	31.8	33.8	34.3	
Other	<u>63.5</u>	<u>108.3</u>	<u>90.1</u>	
<b>Subtotal</b>	<b>331.6</b>	<b>383.0</b>	<b>355.9</b>	
<u>Restricted</u> <sup>(23)</sup>				
Federal Funds	1,029.0	1,771.1	1,688.9	
Trusts	55.4	60.7	61.9	
Dedicated Funds	63.4	59.8	61.1	
Statutorily Restricted Program Receipts	<u>425.6</u>	<u>471.9</u>	<u>496.2</u>	
<b>Subtotal</b>	<b>1,573.4</b>	<b>2,363.5</b>	<b>2,308.1</b>	
<b>Subtotal</b>	<b>1,905.0</b>	<b>2,746.5</b>	<b>2,664.0</b>	
<b>Investment Earnings</b>				
<u>Unrestricted - General Fund Investments</u>	<b>46.5</b>	<b>44.8</b>	<b>45.5</b>	
<u>Restricted</u>				
Constitutional Budget Reserve Fund	114.5	109.3	137.7	
Permanent Fund Dividends <sup>(3)</sup>	1,044.9	1,165.3	1,195.2	
Permanent Fund Inflation Proofing <sup>(3)</sup>	288.4	422.5	650.4	
Required Deposits to PF Principal <sup>(3)</sup>	41.0	33.0	33.0	
GASB PF Revenues (Uncommitted)	804.0	769.2	280.8	
Other Appropriations <sup>(3)</sup>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>	
<b>Subtotal</b>	<b>2,295.3</b>	<b>2,499.3</b>	<b>2,297.1</b>	
<b>Subtotal</b>	<b>2,341.8</b>	<b>2,544.1</b>	<b>2,342.6</b>	
<b>Grand Total</b>	<b>5,373.3</b>	<b>7,571.0</b>	<b>6,840.0</b>	

<sup>(1)</sup> Does not include the fisheries business and fisheries resource landing tax that is shared with qualified municipalities. Please see Appendix C on the Tax Division's web site.

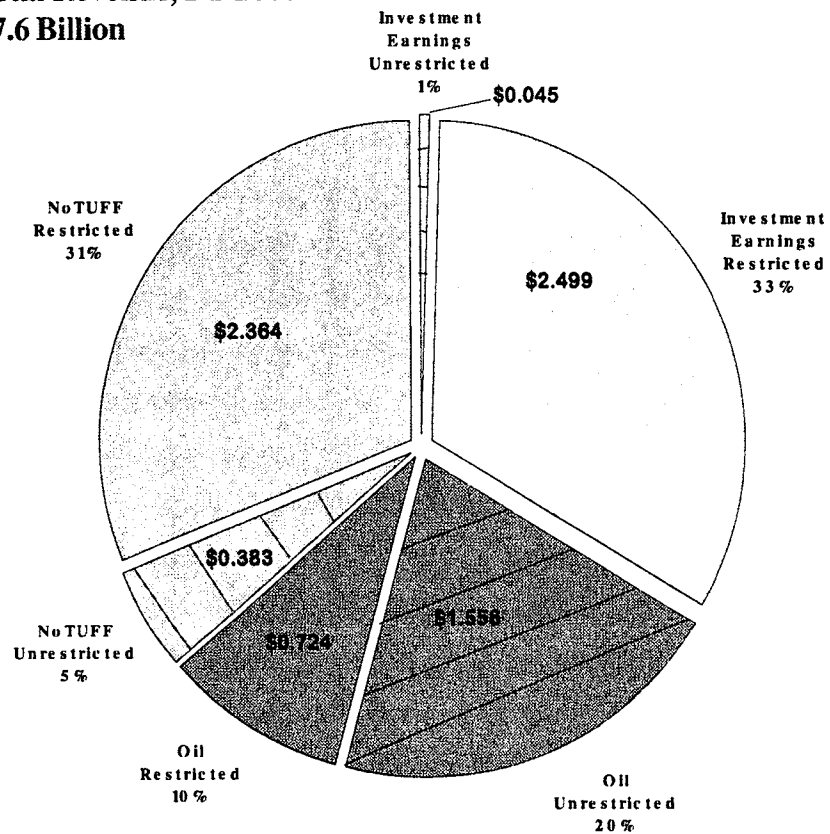
<sup>(2)</sup> Does not include authorized bond sale proceeds of \$378.8 million in FY 1999 and the governor's proposed \$719 million in FY 2001.

<sup>(3)</sup> These Permanent Fund investment revenues are either legally committed to or customarily used for the purposes listed here.

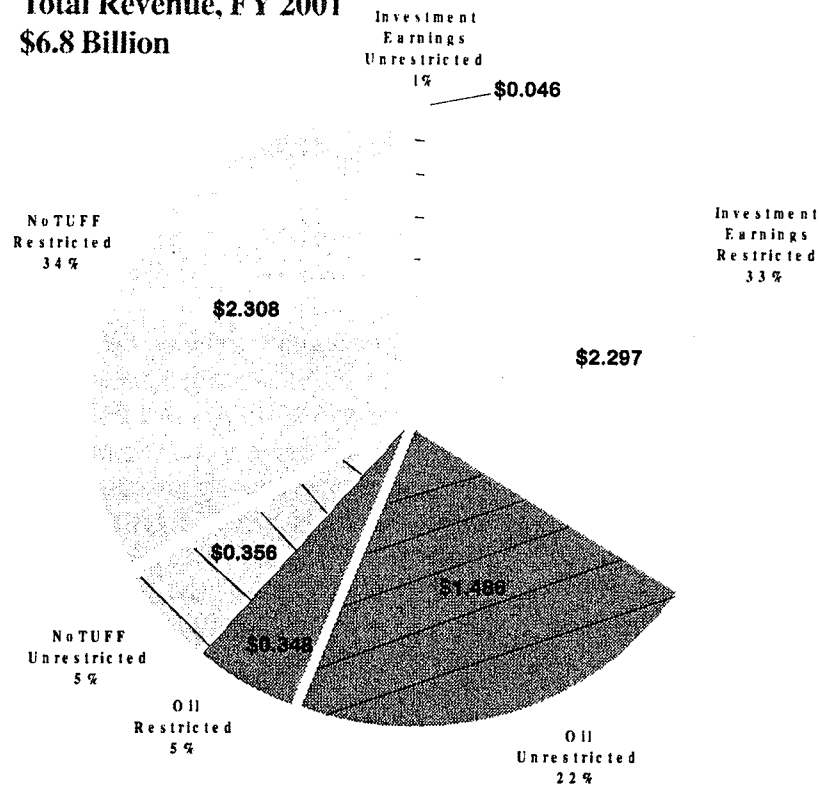
**Figure 1. Total Revenue, FY 1999**  
**\$5.4 Billion**



**Figure 2. Total Revenue, FY 2000**  
**\$7.6 Billion**



**Figure 3. Total Revenue, FY 2001  
\$6.8 Billion**



**Table 2. Total State Revenue, Actual FY 1999 and Projected 2000-2001 <sup>(1)</sup>  
Unrestricted and Restricted by Major Source  
\$ Million**

<u>Revenue Source</u>	<u>Actual FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
<u>Unrestricted</u>			
Oil Revenue	913.2	1,556.3	1,485.7
Non-Oil Revenue (NoTUFF)	331.6	383.0	355.9
Investment Earnings	<u>44.8</u>	<u>45.5</u>	<u>46.5</u>
<b>Subtotal</b>	<b>1,291.3</b>	<b>1,984.1</b>	<b>1,887.1</b>
<u>Restricted</u>			
Oil Revenue	213.3	724.1	347.7
Non-Oil Revenue (NoTUFF)	1,573.4	2,363.5	2,308.1
Investment Earnings	<u>2,295.3</u>	<u>2,499.3</u>	<u>2,297.1</u>
<b>Subtotal</b>	<b>4,082.0</b>	<b>5,586.9</b>	<b>4,952.9</b>
<b>Grand Total</b>	<b>5,373.3</b>	<b>7,571.0</b>	<b>6,840.0</b>

<sup>(1)</sup> Total unrestricted revenue as reported for AKSAS (State of Alaska Accounting System) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions. Detailed AKSAS reported unrestricted revenue and estimates, including certain spending based reporting adjustments, can be found on our web site (Appendix C).

## B. Unrestricted General Purpose Revenue

*Unrestricted General Purpose Revenue* is the amount generally used for budget planning purposes. Table 3 on this and the next page sets out actual FY 1999 revenue and our forecast for FY 2000 and 2001.

We forecast *Unrestricted General Purpose Revenue* by first estimating *General Fund Unrestricted Revenue*, which includes all unrestricted revenue items in the Alaska State Accounting System (AKSAS), as well as certain program receipts. The governor's Office of Management and Budget and the legislature adjust the Department of Revenue's forecast of *General Fund Unrestricted Revenue* to derive a forecast of Total *Unrestricted General Purpose Revenue*. Reductions include: (1) earmarking revenue for specific programs such as the marine highway system; (2) pass-through revenue for qualified regional aquaculture and dive fishery associations; and (3) revenue shared with local governments and organizations (e.g., fisheries taxes). Additions include: (1) transfer payments from state-owned entities such as the Alaska Housing Finance Corporation and Alaska Industrial Development and Export Authority; and (2) settlements of legal disputes not subject to deposit into the CBRF.

**Table 3.    *Unrestricted General Purpose Revenue***  
\$ Million

	<b>Actual</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>OIL</b>			
<u>Property Tax</u>	48.8	46.8	44.2
<u>Corporate Income Tax</u>	145.1	145.0	185.0
<u>Severance Tax</u>			
Oil and Gas Production	358.6	652.7	579.3
Oil and Gas Conservation	1.4	0.1	0.0
Oil and Gas Hazardous Release	<u>11.1</u>	<u>9.6</u>	<u>9.7</u>
Subtotal	371.1	662.4	589.0
<u>Royalties</u>			
Mineral Bonuses and Rents	25.6	5.0	5.0
Oil and Gas Royalties	<u>322.6</u>	<u>697.1</u>	<u>662.5</u>
Subtotal	348.2	702.1	667.5
<b>Subtotal Oil</b>	<b>913.2</b>	<b>1,556.3</b>	<b>1,485.7</b>

**Table 3, cont. *Unrestricted General Purpose Revenue***

<b>\$ Million</b>	<b>Actual</b>		
	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
<b>NoTUFF</b>			
<b><u>Sales/Use Tax</u></b>			
Alcoholic Beverage	12.2	12.5	12.2
Tobacco Products	15.2	15.2	15.0
Insurance Premium	28.4	28.1	28.4
Electric and Telephone Cooperative <sup>(1)</sup>	0.2	0.2	0.2
Motor Fuel Tax-Aviation <sup>(1)</sup>	5.2	5.2	5.2
Motor Fuel Tax-Highway	25.7	25.3	25.3
Motor Fuel Tax-Marine	<u>6.7</u>	<u>6.3</u>	<u>6.3</u>
Subtotal	93.6	92.8	92.6
<b><u>Corporate General Income Tax</u></b>	53.8	52.0	50.0
<b><u>Fish Tax</u></b>			
Salmon and Seafood Marketing	5.3	7.1	5.1
Fisheries Business <sup>(1)</sup>	12.7	17.4	11.6
Fishery Resource Landing <sup>(1)</sup>	<u>3.5</u>	<u>3.3</u>	<u>2.8</u>
Subtotal	21.5	27.8	19.5
<b><u>Other Tax</u></b>			
Mining	0.6	1.7	2.2
Estate	1.7	1.8	1.8
Charitable Gaming	<u>2.2</u>	<u>2.1</u>	<u>2.1</u>
Subtotal	4.5	5.6	6.1
<b><u>Licenses and Permits</u></b>			
Motor Vehicle	31.6	31.5	32.1
Other <sup>(1)</sup>	<u>31.3</u>	<u>31.2</u>	<u>31.2</u>
Subtotal	62.9	62.7	63.3
<b><u>Charges for Services</u> <sup>(1)</sup></b>	31.8	33.8	34.3
<b><u>Other Miscellaneous</u></b>	63.5	108.3	90.1
<b>Subtotal NoTUFF</b>	<b>331.6</b>	<b>383.0</b>	<b>355.9</b>
<b>INVESTMENT EARNINGS</b>	<b>46.5</b>	<b>44.8</b>	<b>45.5</b>
<b>UNRESTRICTED</b>			
<b>GENERAL PURPOSE REVENUE</b>	<b>1,291.3</b>	<b>1,984.1</b>	<b>1,887.1</b>

(1) Does not include amounts shared with qualified communities. For detail, see Appendix C on our web site.

## C. Oil Revenue Forecast

Oil revenue will continue to account for over two-thirds of current *Unrestricted General Purpose Revenue*. Two elements are critical to the oil forecast: price and volume.

Almost all of Alaska's current oil production is delivered to refineries on the U.S. West Coast. Consequently, Alaska's royalty and severance tax revenue depends in large part on the market price of Alaska North Slope crude oil (ANS) in the U.S. West Coast refining centers. Table 4 below reflects actual prices for FY 1999 and the Department of Revenue's forecast of those market prices for the six-year period beginning with the current fiscal year, FY 2000, and continuing through FY 2005.

**Table 4. Delivered Price for ANS Crude Oil**  
Average ANS Market Price, U.S. West Coast, Far East and Wellhead  
\$ per Barrel

<b>Fiscal Year</b>	(1) <b>Average ANS Market</b>	<b>ANS West Coast</b>	<b>ANS Far East</b>	<b>ANS Wellhead</b>
	<b>Actual 1999</b>			
<b>2000</b>	23.28	23.34	22.59	18.94
<b>2001</b>	22.76	22.78	22.32	18.37
<b>2002</b>	19.42	19.42	19.03	14.81
<b>2003</b>	18.53	18.54	18.17	13.93
<b>2004</b>	18.53	18.54	18.17	13.90
<b>2005</b>	18.53	18.54	18.17	13.73

<sup>(1)</sup> BP Amoco, the largest exporter of ANS, recently announced it would cease exports of ANS to the Far East. We continue to assume a minimal level of foreign exports. This level of exports has little effect, as illustrated in this table, with less than 2 cents difference between the ANS West Coast and average market prices for FY 2001-2005.

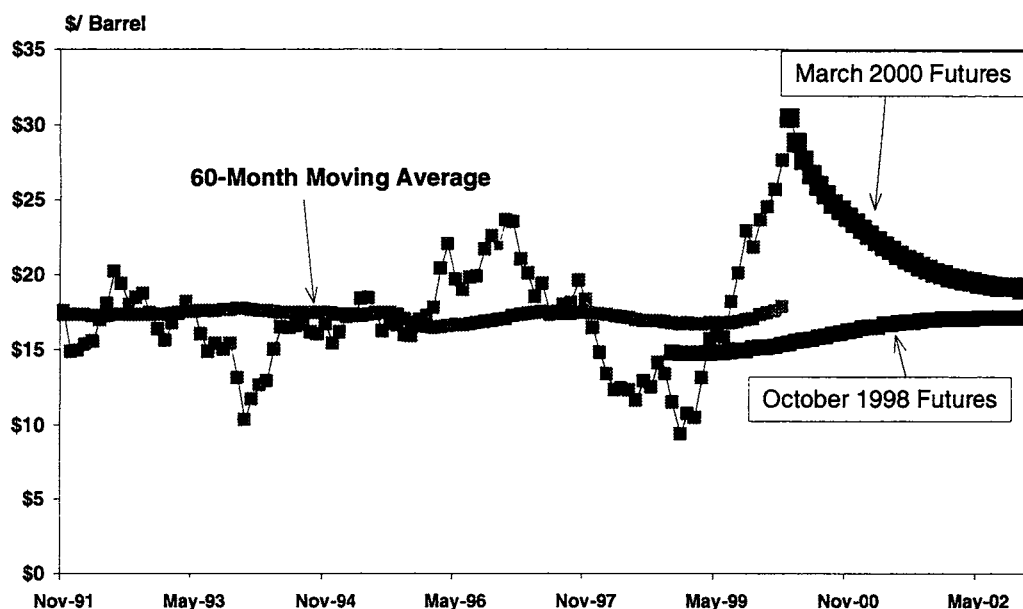
The oil price correction that we are projecting from levels experienced through early March 2000 is consistent with the expectation expressed in the crude oil futures market of a downward correction in oil prices. The chart on the next page demonstrates that the futures market prices generally trend upward when the price of oil is lower than the long-term average (see October 1998) and trend downward when oil prices are above the long-term average shown by the March 2000 futures curve.

Figure 4 depicts: (1) the monthly West Coast ANS market price from January 1991 through February 2000; (2) the 60-month moving average West Coast market price for the same period; and (3) a set of derived ANS futures prices for October 1998 and March 2000.



The figure illustrates the volatility of the month-to-month crude oil prices; ANS West Coast prices during the pertinent time period ranged from just under \$10 per barrel to just over \$30 per barrel. In contrast however, during this same time period the 60-month moving average prices have ranged from a low of \$16.41 to a high of \$17.81 per barrel. The average of the 60-month moving averages is \$17.20 per barrel. Finally, the derived futures market prices show that the participants in that market anticipate a continuation of the post-1986 historic levels for oil prices. The derived futures price for ANS is virtually the same after three years whether the current price is very low (as it was in October 1998) or very high (as it was in March 2000).

**Figure 4. ANS West Coast and Futures Market Oil Prices**



The derived ANS futures price is based on the spot market differential between WTI and ANS applied to the WTI futures prices as reported on the New York Mercantile Exchange.

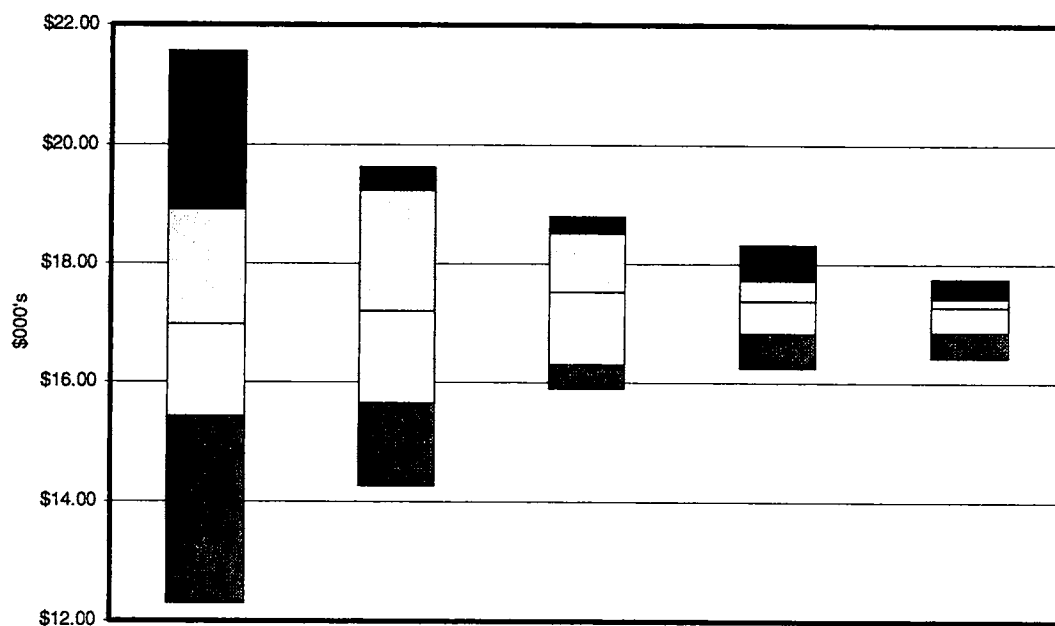
Figure 5 on the next page reflects another analysis demonstrating both the short-term volatility and the longer-term stability of ANS West Coast market prices over the past fourteen years. Each bar depicts the variability of ANS West coast oil price for each of the rolling 12-month, 24-month, 36-month, 48-month and 60-month time periods.

The left hand bar depicts the variability of ANS West Coast oil price for each of the rolling 12-month time periods. Ninety-five percent of those average prices fall between \$12.29 and \$21.56 per barrel; 50 percent between \$15.44 and \$18.91 per barrel; and the median of those 12-month average prices is \$16.97 per barrel.

The right hand bar depicts the variability of the rolling 60-month time period. The 60-month average ANS West Coast market prices were very consistent. Ninety-five percent of those averages fall between \$16.42 and \$17.74 per barrel; 50 percent of the time, between \$16.84 and \$17.41 per barrel; and the median of those 60-month average prices is \$17.26 per barrel.

The middle three bars in the figure reflect the variability of the rolling 24-month, 36-month and 48-month time periods. Those whose perspective is only one year should focus on the price range reflected in the 12-month or left hand bar. The bars to the right are more appropriate for the longer term.

**Figure 5. Cumulative Average ANS Oil Price (January 1986-February 2000)  
Moving Average and Confidence Intervals**



Percentile Ranking	12-month	24-month	36-month	48-month	60-month
2.5%	21.56	19.62	18.78	18.32	17.74
25%	18.91	19.22	18.50	17.71	17.41
Median	16.97	17.20	17.53	17.37	17.26
75%	15.44	15.67	16.31	16.82	16.84
97.5%	12.29	14.27	15.90	16.25	16.42

The percentile ranking is the probability of exceeding the corresponding ANS oil price.

## D. Oil Production Forecast

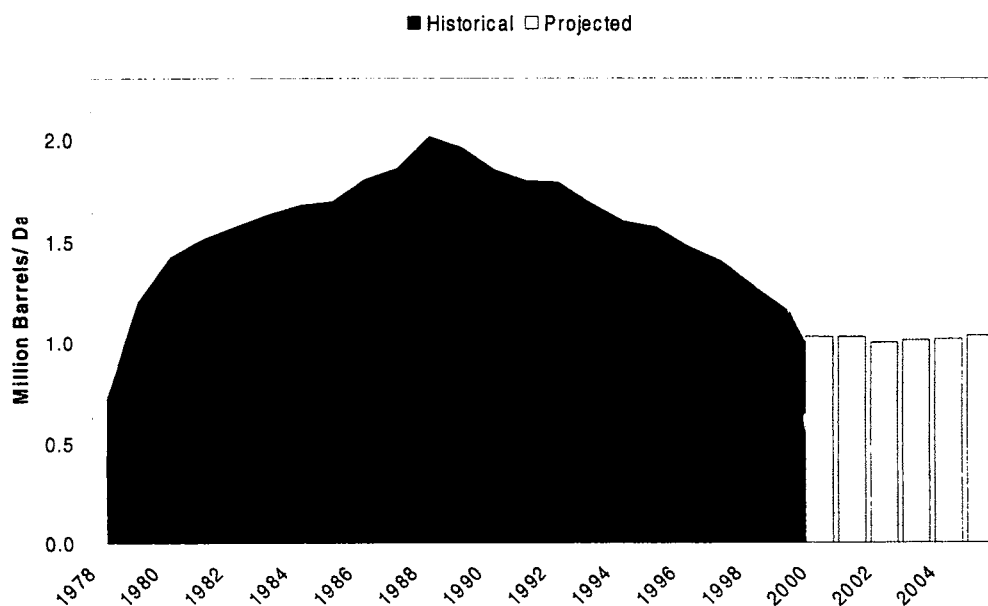
While the average delivered prices for ANS crude oil over all five-year periods since 1986 has been remarkably steady at just over \$17 per barrel, ANS production volumes have declined steadily over most of that time period. In 1988, ANS production peaked at 2.005 million barrels per day; it has declined steadily since. ANS production has dropped by 25 percent since FY 1997, the last year the state did not have to call upon its reserves to balance its budget.

Table 5 below summarizes the department's Alaska North Slope oil production forecast through FY 2005. Figure 6 shows historical and projected rates for ANS oil production. We forecast a temporary reversal of the ANS production rate decline and a slight increase in the production rate during the period FY 2003 to 2005. This increase is driven by new developments at Alpine in FY 2001, Northstar in FY 2003, and Liberty and Colville River satellites in FY 2005 that will offset the steady decline in production from mature fields.

**Table 5. ANS Production**  
Million Barrels per Day

<u>Fiscal Year</u>	<u>ANS Production</u>
Actual 1999	1.164
2000	1.032
2001	1.030
2002	1.002
2003	1.013
2004	1.019
2005	1.034

**Figure 6. ANS Historical and Projected Production**



## E. Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed in the previous two sections, the table below summarizes the departments's forecast of Total Unrestricted General Purpose Revenue through FY 2005.

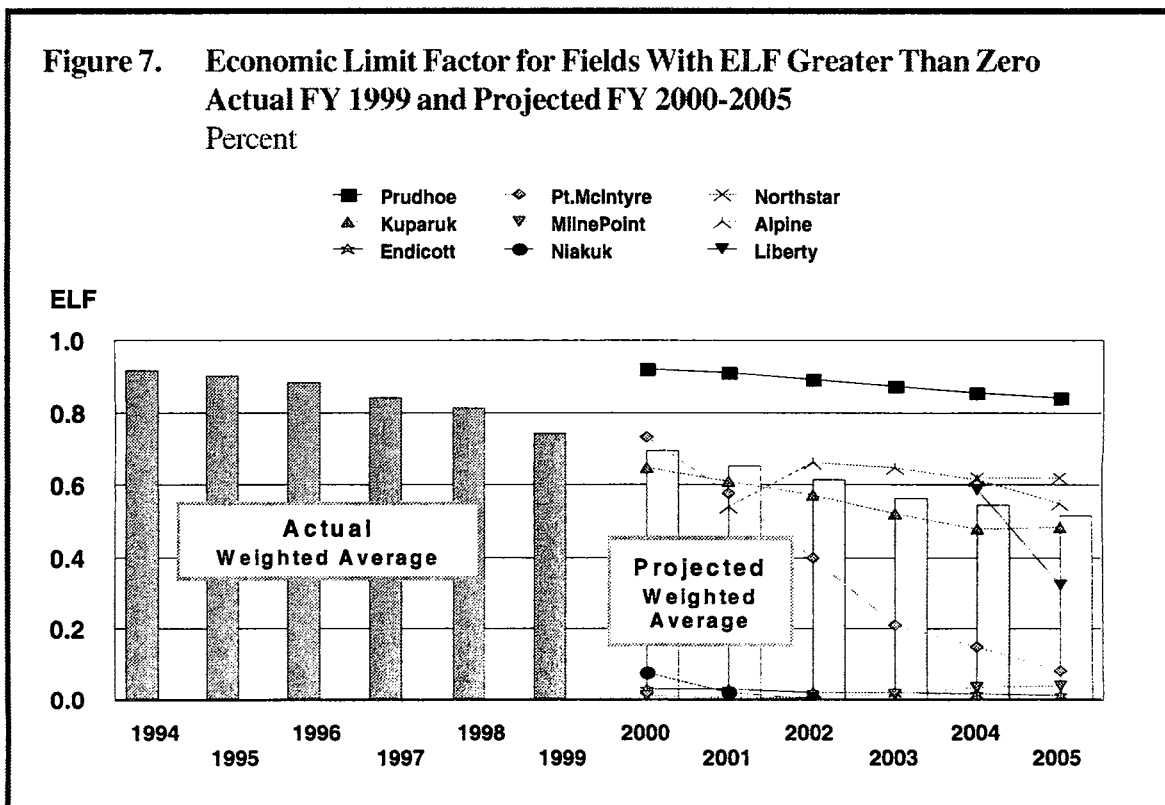
**Table 6.** Total *Unrestricted General Purpose Revenue*,  
Actual FY 1999 and Projected FY 2000-2005  
\$ Million

<b>Fiscal Year</b>	(see Table 10)	(see Table 14)	<b>Unrestricted Investment Earnings</b>	<b>Unrestricted General Purpose Revenue</b>	<b>Percent from Oil</b>
	<b>Unrestricted Oil Revenue</b>	<b>Unrestricted NoTUFF Revenue</b>			
<b>Actual 1999</b>	913.2	331.6	46.5	1,291.3	70.7%
<b>2000</b>	1,556.3	383.0	44.8	1,984.1	78.4%
<b>2001</b>	1,485.7	355.9	45.5	1,887.1	78.7%
<b>2002</b>	1,171.1	347.4	45.5	1,564.0	74.9%
<b>2003</b>	1,077.7	349.6	45.5	1,472.8	73.2%
<b>2004</b>	1,059.3	344.7	45.5	1,449.6	73.1%
<b>2005</b>	1,021.7	345.8	45.5	1,412.9	72.3%

## Economic Limit Factor

The average rate of severance taxation on North Slope production has been falling as the result of the tax adjustment known as the Economic Limit Factor (ELF). The ELF is a factor that reduces the nominal severance tax rate on a producing reservoir based on the average rate of production from the reservoir and the average productivity of the wells producing that reservoir. Since oil production rates and well productivity decline over time as an oil field is being produced, the average severance tax rate will fall as well. Further, the ELF reduces the tax rate on smaller oil fields such that most fields producing less than 20,000 barrels per day will pay little or no severance tax.

Since much of Alaska's current and projected North Slope oil production will continue to come from old oil fields and new production will come from small fields, the average tax rate will continue to fall. The average oil production tax rate for North Slope production in FY 1994 was 13.5 percent; we project that for FY 2001 it will average 9.5 percent. Figure 7 illustrates the actual average ELF for North Slope oil production since 1994 and our projection of that average through FY 2005. It also depicts our projection of the ELF through FY 2005 for each North Slope oil reservoir with a non-zero ELF.



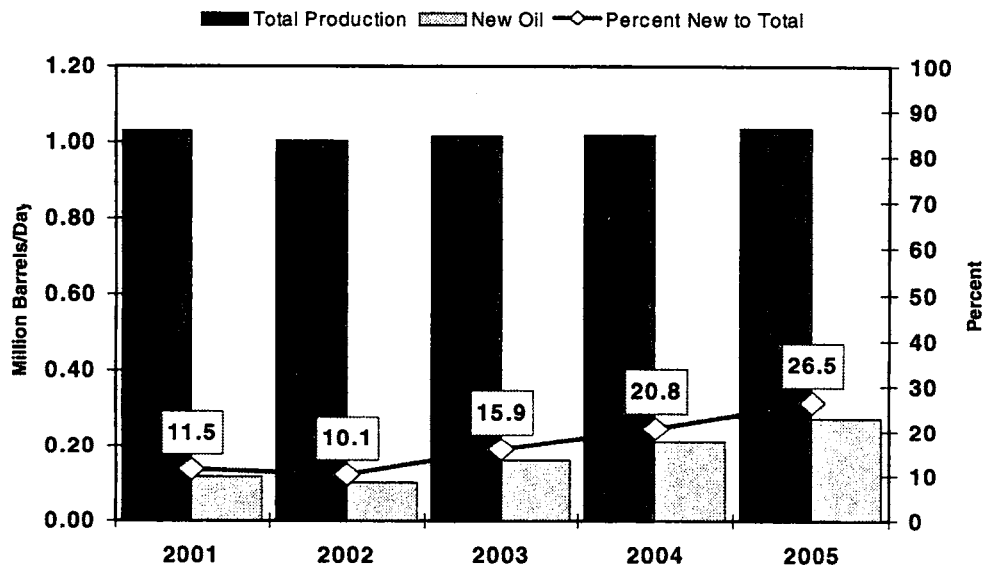
## New Oil Production

As the volumes from the giant Prudhoe Bay and Kuparuk fields continue to decline, some of the drop in output will be offset by new oil discoveries. In our forecast, new oil is defined as crude already discovered and about to come on line. Five years from now, as the table and figure below show, over one-quarter of our forecasted oil production will come from fields not now producing oil. Significant capital investments by North Slope producers will have to be made for this new oil to come on line.

**Table 7. New Oil as a Percentage of Total Oil**  
Million Barrels per Day

<u>Fiscal Year</u>	<u>Total New Oil</u>	<u>Total Spring Forecast</u>	<u>New Oil as Percent of Spring Forecast</u>
2001	0.1181	1.0303	11.5 %
2002	0.1016	1.0015	10.1 %
2003	0.1606	1.0132	15.9 %
2004	0.2118	1.0186	20.8 %
2005	0.2744	1.0341	26.5 %

**Figure 8. New Oil as Percentage of Projected Oil**



## F. Constitutional Budget Reserve

### Minimum Necessary CBRF Borrowing Authorization

What is the minimum authorization for annual borrowing from the CBRF needed for state government to function? The answer is the anticipated difference between Unrestricted General Purpose Revenue and the General Fund budget *plus \$300 million*. This \$300 million needed for cash flow is repaid at the end of each year.

Why must the authorization be \$300 million more than the anticipated deficit? Because of the following:

1. Since 1990, the General Fund has “borrowed” \$3.9 billion from the CBRF.
2. The Alaska Constitution requires that whenever the General Fund owes money to the CBRF at the end of a fiscal year, any balance in the General Fund – up to the amount of the outstanding debt – must be transferred to the CBRF.
3. Since the General Fund’s debt to the CBRF is so large (\$3.9 billion), the entire balance in the General Fund is automatically transferred to the CBRF at the end of each fiscal year, making the General Fund balance \$0 on July 1.
4. Given the payroll, invoices, school funding and other payables that the state owes at any point in time, financial management professionals unanimously agree that the state must always have a balance of at least \$100 million in the General Fund.
5. The first month of the fiscal year has the highest level of General Fund expenditure of any month because, in addition to meeting the state’s normal monthly operating expense, including the foundation payment to school districts, the state must pay a disproportionately large amount of General Fund money to the university, for debt service, for summer construction projects and to municipal governments.
6. Although General Fund expenses are high early in the fiscal year, revenue receipts are delayed, so the General Fund must borrow \$300 million in July – both to restore the \$100 million balance after the end-of-the-fiscal-year payback to the CBRF on June 30 and to meet immediate needs – regardless of whether oil prices are high or low.
7. If oil prices were high enough during the year to balance the budget – \$29 per barrel for FY 2001 – the revenue cash flow still would not catch up with the expenditure cash flow until June 30, the very last day of fiscal year, and the day the General Fund happens to receive its largest amount of cash revenue.
8. The story starts all over again at midnight that night when the General Fund balance must be reduced to zero again to repay the CBRF.

The \$300 million is the state’s working capital. It is needed to bridge the differences in the day-to-day timing of funds flowing in and out of the General Fund, just like working capital is needed by a company to bridge the differences in the day to day timing of money outflows and inflows.

Table 8 reflects the amount needed to make up the difference between the *Unrestricted General Purpose Revenue* the Department of Revenue forecasts and the annual General Fund budget of \$2.3 billion<sup>(1)</sup> for each year from FY 2000 through 2005.

**Table 8.     Difference Between *Unrestricted General Purpose Revenue* and General Fund Budget - "The Gap"**  
\$Million

<b>Fiscal Year</b>	<b>Total</b>	<sup>(1)</sup> <b>General</b>	<b>Difference</b>
	<b><i>Unrestricted General Purpose Revenue</i></b>	<b>Fund Expenditure</b>	
<b>2000</b>	1,984.1	2,289.0	(304.9)
<b>2001</b>	1,887.1	2,300.0	(412.9)
<b>2002</b>	1,564.0	2,300.0	(736.0)
<b>2003</b>	1,472.8	2,300.0	(827.2)
<b>2004</b>	1,449.6	2,300.0	(850.4)
<b>2005</b>	1,412.9	2,300.0	(887.1)

<sup>(1)</sup> Any budget figure used to derive "the Gap" will have its detractors. What about cuts? What about funding urgent needs? What about inflation and population growth? This amount, based on the FY 2000 General Fund budget of approximately \$2.3 billion, simply provides a reference point for analysis.

As approved by voters in 1990, all of the money from oil and gas tax and royalty settlements is deposited into the Constitutional Budget Reserve Fund. Over the past nine years the state has deposited about \$5 billion into the reserve fund and has earned \$1.1 billion on the money.

For all but one of those years, the state has relied on the CBRF to fill the difference between *Unrestricted General Purpose Revenue* and the annual state budget.

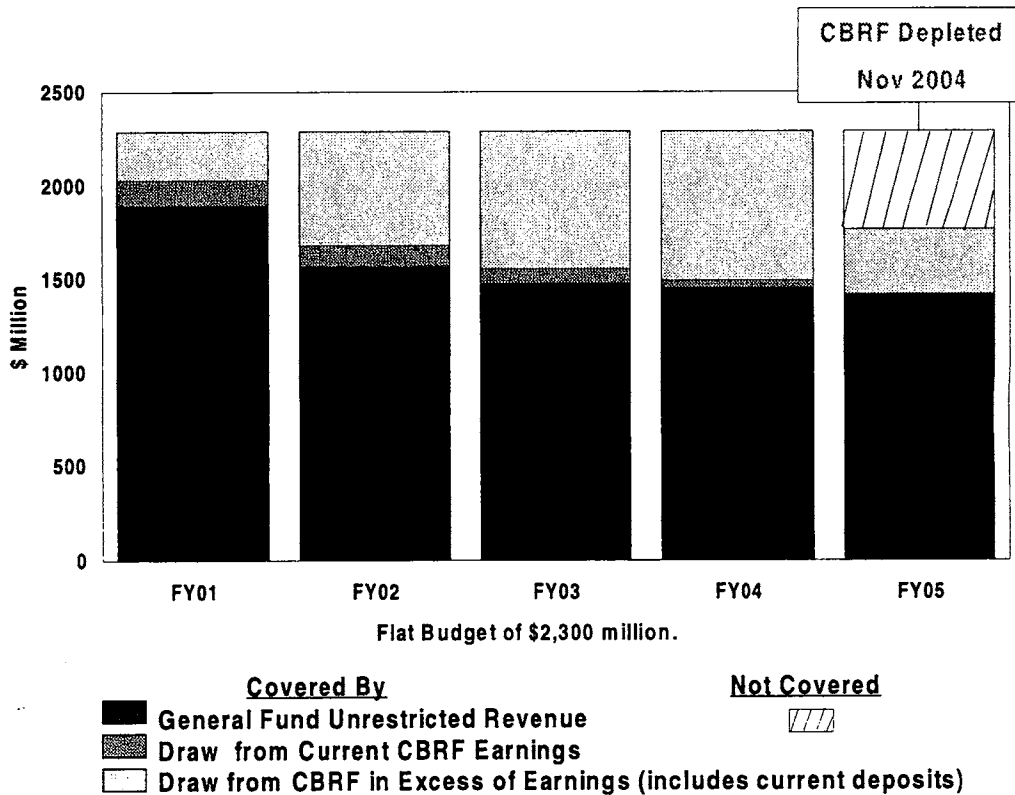


This table reflects the CBRF Depletion Matrix and the time period the fund could continue to be used to make up the difference between *Unrestricted General Purpose Revenue* and the General Fund budget at various oil prices and budget levels. For example, if we are correct in our oil price forecast and the General Fund budget remains at \$2.3 billion per year, the CBRF will be exhausted in November 2004.

**Table 9. CBRF Depletion Matrix**  
\$ per Barrel

<b>Annual Budget Change</b>	<b>\$12.50</b>	<b>Spring 2000 Forecast</b>	<b>\$22.50</b>
<b>+3.0%</b>	Dec-2002	May-2004	Mar-2005
<b>+1.0%</b>	Dec-2002	Sep-2004	Oct-2005
<b>0.0%</b>	Jan-2003	Nov-2004	Apr-2006
<b>-1.0%</b>	Jan-2003	Mar-2005	Oct-2006
<b>-3.0%</b>	Mar-2003	Nov-2005	May-2009

**Figure 9. Anticipated Life of the Constitutional Budget Reserve Fund**



### III. OIL REVENUE

Oil revenue includes revenue from both oil and gas. The state receives its oil revenue from four sources: oil and gas production tax, property tax, royalties and corporation income tax. The bulk of the revenue received from taxes and royalties goes into the General Fund for general purpose spending. Roughly 25 percent of the royalty revenue goes directly into the principal of the Permanent Fund and 0.5 percent goes into the Public School Trust Fund. Settlements of tax and royalty disputes between the State of Alaska and the oil producing companies go into the Constitutional Budget Reserve Fund (CBRF).

### Unrestricted Oil Revenue

**Table 10. Unrestricted Oil Revenue Projections,  
Actual FY 1999 and Projected FY 2000-2005**  
\$Million

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>(1) Corporate Income Tax</b>	<b>Severance Tax</b>	<b>Royalties including Bonuses</b>	<b>Total Oil</b>
<b>Actual 1999</b>	48.8	145.1	371.1	348.2	<b>913.2</b>
<b>2000</b>	46.8	145.0	662.4	702.1	<b>1,556.3</b>
<b>2001</b>	44.2	185.0	589.0	667.5	<b>1,485.7</b>
<b>2002</b>	41.4	165.0	444.5	520.2	<b>1,171.1</b>
<b>2003</b>	39.6	160.0	386.1	492.0	<b>1,077.7</b>
<b>2004</b>	37.8	160.0	367.1	494.5	<b>1,059.3</b>
<b>2005</b>	35.9	160.0	341.7	484.1	<b>1,021.7</b>

<sup>(1)</sup> Because of the reorganization of the five largest payers of petroleum corporation income tax in Alaska, the degree of uncertainty concerning this tax type is very high. Please see discussion on Page 31.

## Oil Price Forecast

The oil price forecast is developed in-house by a panel comprised of state and University of Alaska economists and analysts. The forecast is based on the subjective assessment of both the market fundamentals of supply and demand and oil price trend analysis.

### Oil Market Fundamentals.

For this forecast we assumed that: (1) demand growth continues in 2000, increasing by 1.3 million barrels per day, and (2) OPEC and non-OPEC producers meet this increased demand by upping production by more than 2.5 million barrels per day. Production in excess of daily consumption will replenish severely depleted stockpiles and result in ANS West Coast oil prices averaging \$23.28 per barrel in FY 2000 and \$22.76 per barrel in FY 2001.

### Current Oil Market Situation.

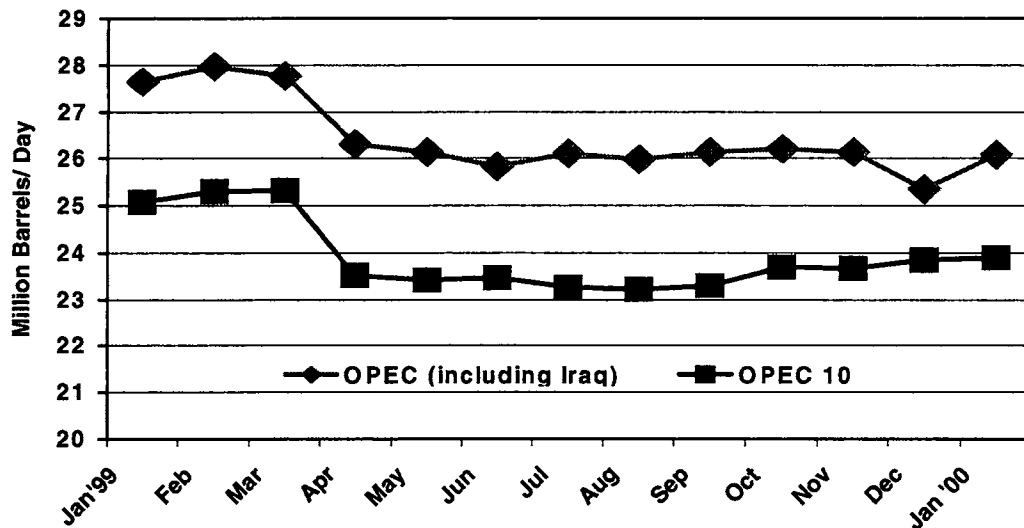
Oil prices have been very high recently as a result of two basic market fundamentals, higher consumption and reduced production. Continued robust economic growth in the U.S. and an economic recovery in Asia resulted in global crude oil consumption growing by 1.2 million barrels per day (1.6 percent) in 1999. Crude oil production fell by 1.5 million barrels per day in 1999 as OPEC trimmed their average output by 1.4 million barrels per day and non-OPEC production fell by 0.1 million barrels per day.

Organization of Petroleum Exporting Countries. At its March 27 meeting, nine of the eleven OPEC members agreed to increase production quotas by a total of 1.452 million barrels per day. Iran did not agree to an official quota but has been quoted as saying it would increase production sufficient to maintain its market share. Iraq is not subject to an OPEC quota. Based on estimates of current production, the new production quotas for the nine members actually would represent only about a 450,000 barrels per day increase. OPEC agreed to meet again in extraordinary session June 21, 2000, to assess the oil market situation. Clearly, OPEC is implementing an incremental strategy to avoid putting too much oil on the market in the seasonally weak second quarter. Saudi Arabia, OPEC's largest producer, appears to support a price target of between \$20 and \$25 per barrel.

Alaska North Slope. Almost all of Alaska's current oil production is delivered to refineries on the U.S. West Coast. Consequently, Alaska's royalty and severance tax revenue depends in large part on the market price of Alaska North Slope crude oil (ANS) in the U.S. West Coast refining centers.

We assume that 95 percent of Alaska's oil will continue to be sold either in Alaska, Hawaii or the West Coast with a small amount going to Asian destinations. Although BP has announced it will no longer export to the Far East, Exxon, which has exported oil in the past, and Phillips, which will take over a significant portion of North Slope production, have made no such announcement. Table 11 on the next page illustrates the marketing assumptions used in determining the ANS wellhead value, the value used to compute our petroleum production taxes and royalties.

**Figure 10. OPEC Production**  
**January 1998-February 2000**  
 Million Barrels per Day



**Table 11. Spring 2000 Forecast Assumptions**  
 \$ per Barrel

Fiscal Year	Market Price	ANS Marine Transportation	TAPS Tariff	Feeder Pipeline	ANS Wellhead
Actual 1999	12.70	1.42	2.70	0.11	8.47
2000	23.28	1.62	2.74	0.12	18.85
2001	22.76	1.37	2.88	0.16	18.37
2002	19.42	1.46	2.97	0.18	14.81
2003	18.53	1.47	2.93	0.20	13.93
2004	18.53	1.45	2.97	0.22	13.90
2005	18.53	1.51	3.00	0.29	13.73

## Oil Production Forecast

We developed our production assumptions on a field-by-field basis. The forecast is based on company-by-company assessed proven and probable reserves, development plans where available, and assessments by the technical personnel at the Department of Revenue, Department of Natural Resources and the Alaska Oil and Gas Conservation Commission.

While the average delivered price for ANS crude oil over all five-year periods since 1986 has been remarkably steady at just over \$17 per barrel, ANS production volumes have declined steadily over most of that time period. In 1988, ANS production peaked at 2.005 million barrels per day; it has declined steadily since. ANS production has dropped by 25 percent since FY 1997, the last year the state did not have to call upon its reserves to balance its budget.

The table below summarizes the department's Alaska North Slope oil production forecast through FY 2001. We forecast a temporary reversal of the ANS production rate decline due to a slight increase in the production rate during the period FY 2003 to 2005. This increase is driven by new developments at Alpine in 2001, Liberty and Northstar in 2003, and new satellite production from Prudhoe Bay and other existing fields.

The production forecast is only modestly changed from the fall 1999 forecast. Although there have been reports in the news media concerning additional production as a result of the proposed BP-Arco acquisition and the sale of Arco-Alaska to Phillips, at this point it is unclear what, if any, additional investments or production will occur. Our spring forecast for FY 2000-2005 trims, on average, a little more than 6,000 barrels per day from our fall forecast.

New developments at Alpine (FY 2001 start-up), satellite fields in Prudhoe Bay and other existing fields, plus Liberty and Northstar (FY 2003 start-ups), are key to holding off an overall North Slope production decline over the next six years.

**Table 12. ANS Oil and NGL Production**  
Million Barrels per Day

	<u>Actual FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Prudhoe Bay	0.6354	0.5645	0.5220
PBU-Satellites <sup>(1)</sup>	0.0032	0.0051	0.0103
Kuparuk	0.2408	0.2130	0.1995
West Beach	0.0024	0.0038	0.0062
Tabasco	0.0028	0.0068	0.0054
Tarn	0.0198	0.0267	0.0238
Milne Point	0.0490	0.0467	0.0454
Schrader Bluff	0.0055	0.0064	0.0065
Sag River	0.0008	0.0001	0.0010
Endicott <sup>(2)</sup>	0.0434	0.0402	0.0381
Eider	0.0024	0.0005	0.0017
Badami	0.0027	0.0031	0.0030
Lisburne	0.0069	0.0077	0.0082
Point McIntyre	0.1191	0.0797	0.0747
Niakuk	0.0292	0.0253	0.0223
West Beach	0.0005	0.0019	0.0022
N Prudhoe Bay State	0.0000	0.0001	0.0002
Alpine	<u>0.0000</u>	<u>0.0000</u>	<u>0.0600</u>
<b>Total</b>	<b>1.1638</b>	<b>1.0316</b>	<b>1.0303</b>

<sup>(1)</sup> Includes Midnight Sun, Polaris, and Aurora.

<sup>(2)</sup> Includes Sag Delta.

## Petroleum Property Tax

It appears Alaskans will vote in November on a proposition to restrict local property tax rates to 10 mills, plus an additional amount to cover debt service on debts already in place. If this initiative becomes law on January 1, 2001, it could increase the annual state revenue from property taxes by approximately \$10 million.

How can a cap on municipal mill rates generate increased revenue for the state? The state levies a 20-mill ad valorem tax on all oil and gas property in the state, but allows a credit against the state tax for any local property taxes levied against the same property. If the 10-mill limit reduces local taxes, it will also reduce the credit and, therefore, increase the state's revenue. Since, for example, Valdez currently has a mill rate of 20, about half of the \$13 million it collects in oil and gas property taxes would shift to the state. Several million dollars would also shift in Kenai and Fairbanks. The total increase to the state would be \$10 million per year. Since the North Slope Borough's debt service accounts for the largest part of its mill rate, it is unlikely that there would be any significant increase in state revenue over the next 10 years from the effects of the 10-mill limit on oil and gas property taxed in the North Slope Borough.

On the other hand, there may be short-term decreases in state revenue as local jurisdictions increase their bonded indebtedness to take advantage of the exemption for repayment of debt assumed before the proposition would take effect on January 1, 2001.

## Petroleum Corporate Income Tax

A petroleum corporation's Alaska corporate income tax revenue depends on the relative size of its Alaska-vs.-worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning the corporation's worldwide taxable income to Alaska using the average of three factors: the proportion of the corporation's (1) tariffs and sales; (2) oil and gas production; and, (3) oil and gas property in Alaska.

### Industry Reorganization.

As discussed in our fall 1999 forecast, oil corporate income tax revenue is volatile, and consequently very difficult to predict. Compounding this difficulty is the uncertainty created by the reorganization of the largest five payers of petroleum corporation income tax in Alaska (Arco, BP, Exxon, Mobil and Phillips). Approximately 95 percent of the total Alaska petroleum corporate income tax revenue is paid by these five oil companies. These corporations have, or are currently in the process of, merging with each other or other entities:

- On December 31, 1998, BP and Amoco merged.
- On November 30, 1999, Exxon and Mobil merged.
- On March 15, 2000, BP/Amoco and Arco agreed to sell Arco's Alaska business to Phillips. The sale is contingent on the approval of the merger between BP/Amoco and Arco by the Federal Trade Commission. Phillips would acquire the cash to purchase Arco by borrowing money. The interest paid on this money would lower Phillips' taxable income.
- On March 24, 2000, Exxon/Mobil filed a lawsuit to enjoin a major portion of the proposed sale of Arco's Alaska assets to Phillips.

These reorganizations affect both the total taxable income and the size of the factors used to apportion income to Alaska. We have received estimated payments from BP/Amoco but will not receive returns from any of these entities until October 15, 2000. Additionally, the sale of Arco's Alaska business to Phillips may be delayed until the Exxon/Mobil lawsuit is resolved.

Because forecasting the net effect on factors and earnings of the reorganizations would be pure speculation, we are not adjusting our forecast to reflect these changes.

## Restricted Oil Revenue

Currently, a minimum of 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state are deposited into the Permanent Fund. State oil and gas leases issued after 1979 must contribute 50 percent to the fund. In addition, 0.5 percent of all royalties and bonuses are deposited in the Public School Trust Fund. As explained earlier, any oil and gas tax or royalty settlements with the oil industry are deposited in the CBRF.

**Table 13. Restricted Oil Revenue, Actual FY 1999 and Projected FY 2000-2001**  
\$ Million

	<b>Actual FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
<b><u>Restricted</u></b>			
Royalties to the Permanent Fund	155.5	259.3	263.2
Royalties to the Public School Trust Fund	<u>2.4</u>	<u>4.8</u>	<u>4.5</u>
<b>Subtotal</b>	<b>157.9</b>	<b>264.1</b>	<b>267.7</b>
<b>Settlements to CBRF (tax and royalty)</b>	<b><u>55.4</u></b>	<b><u>460.0</u></b>	<b><u>80.0</u></b>
<b>Total</b>	<b>213.3</b>	<b>724.1</b>	<b>347.7</b>

## IV. NON-OIL TAXES, USER FEES AND FEDERAL FUNDS

The non-petroleum revenues are projected based on trend extrapolation, econometric analysis and assessment by state economists and resource and financial managers.

### Unrestricted NoTUFF Revenue

Unrestricted NoTUFF revenue includes revenue from general corporate income tax, sales and use tax, fish tax, licenses and permits, charges for services, other tax and other miscellaneous. We discussed each of these NoTUFF components in detail in our Fall 1999 Revenue Sources Book. For the purposes of this abbreviated spring forecast, discussions will address only tobacco and fisheries business tax. We have chosen these tax types because the level of interest in these two taxes.

The table below shows actual FY 1999 NoTUFF revenues and projected revenue for FY 2000-2005 for each tax type.

**Table 14. Unrestricted Non-Oil Taxes, User Fees and Federal Funds, <sup>(1)</sup>  
Actual FY 1999 and Projected FY 2000-2005  
\$ Million**

<b>Fiscal Year</b>	<b>Sales/ Use Tax</b>	<b>General Corporate Income</b>	<b>(2) Fish Tax</b>	<b>Other Tax</b>	<b>Licenses/ Permits</b>	<b>Charges for Services</b>	<b>Other</b>	<b>Total</b>
<b>1999</b>	93.6	53.8	21.5	4.5	62.9	31.8	63.5	<b>331.6</b>
<b>2000</b>	92.8	52.0	27.8	5.6	62.7	33.8	108.3 <sup>(3)</sup>	<b>383.0</b>
<b>2001</b>	92.6	50.0	19.5	6.1	63.3	34.3	90.1 <sup>(3)</sup>	<b>355.9</b>
<b>2002</b>	92.6	50.0	20.3	6.7	64.0	34.3	79.5 <sup>(3)</sup>	<b>347.4</b>
<b>2003</b>	92.8	50.0	21.4	6.7	64.6	34.3	79.8 <sup>(3)</sup>	<b>349.6</b>
<b>2004</b>	92.9	50.0	18.7	6.9	65.3	34.3	76.7 <sup>(3)</sup>	<b>344.7</b>
<b>2005</b>	93.0	50.0	18.7	6.9	66.0	34.3	76.9 <sup>(3)</sup>	<b>345.8</b>

<sup>(1)</sup> There are no federal funds in unrestricted revenue.

<sup>(2)</sup> Does not include the fisheries business and fisheries resource landing tax that is shared with qualified municipalities. See Appendix C on our web site for more detail.

<sup>(3)</sup> Includes estimates from tobacco settlements, and for FY 2000-2001, includes unrestricted AHFC dividend amounts. See Appendix C on our web site for more detail.



## Tobacco Tax

On October 1, 1997, the state's cigarette tax rate increased from \$0.29 to \$1 per pack (for 20 cigarettes), and the tax rate on other tobacco products (e.g., cigars and smokeless) increased from 25 percent to 75 percent of the wholesale price. As a result of the tax rate increase, total revenue from tobacco taxes is almost three times what it was in FY 1997. The revenue from the \$0.71 cigarette tax rate increase goes to the School Fund and is included under restricted revenue. The revenue from other tobacco products goes to the General Fund.

FY 1999 was the first full year with the increased tax rate and with no stockpiling effect. In FY 2000, we project that the General Fund cigarette revenue decrease will be completely offset by an increase in other tobacco products revenue (see table below). Other tobacco products revenue will then level off after FY 2000 and cigarette tax revenue will continue to decrease by approximately 2.5 percent per year.

**Table 15. Tobacco Tax Allocations**  
\$Million

	<b>Actual FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
School Fund	32.7	32.1	31.3
General Fund	<u>15.2</u>	<u>15.2</u>	<u>15.0</u>
<b>Subtotal</b>	<b>47.9</b>	<b>47.3</b>	<b>46.3</b>

## Fisheries Business Tax

We project a large increase in fisheries business tax revenue in FY 2000 (see table below). FY 2000 will be the first year since FY 1995 that fisheries business tax revenue has increased. The following are some of the reasons:

1. An increase in the quantity of sockeye and pink salmon.
2. An increase in the price and quantity of halibut.
3. An increase in the price of pollock and sablefish.
4. An increase in the price of King Crab.

After FY 2000, shellfish volumes will decline dramatically due to tanner crab moving into the downward portion of its natural cycle. Additionally, salmon volumes and groundfish prices are projected to fall. Consequently, we project that revenue will decrease to \$23.4 million and then slowly increase as tanner crab stocks recover.

**Table 16. Fisheries Business Tax <sup>(1)</sup>**  
\$Million

	<b>FY 1999 Actual</b>		<b>FY 2000 Projected</b>		<b>FY 2001-2002</b>
	<u>Value</u>	<u>Tax</u>	<u>Value</u>	<u>Tax</u>	<u>Change from FY 2000</u>
<b>Halibut</b>	63	1.9	120	3.6	Catch Same/ Unit Value Same
<b>Salmon</b>	271	10.3	370	14.1	Catch Down/ Unit Value Same
<b>Herring</b>	12	0.5	13	0.5	Catch Same/ Unit Value Same
<b>Shellfish</b>	206	7.8	264	10.0	Catch Down/ Unit Value Up
<b>Groundfish</b>	<u>171</u>	<u>5.4</u>	<u>210</u>	<u>6.6</u>	Catch Same/ Unit Value Down
<b>Total</b>	<b>723</b>	<b>25.9</b>	<b>977</b>	<b>34.8</b>	

<sup>(1)</sup> This is revenue prior to sharing with qualified communities.

# Restricted NoTUFF Revenue

The four components of restricted NoTUFF revenue are presented in the table below. Shown are actual FY 1999 and projected FY 2000-2001 revenues.

**Table 17. Restricted Non-Oil Taxes, User Fees and Federal Funds**  
\$ Million

<b>Restricted</b> <sup>(1)</sup>	<b>Actual</b>		
<b>Federal Funds</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
Federal Receipts	1,029.0	1,771.1	1,688.9
<b>Dedicated Funds</b>			
Fish and Game Fund	27.2	23.4	25.5
School Fund (Cigarette Tax)	32.7	32.1	31.3
Second Injury Fund Reserve Account	2.7	2.9	2.9
Disabled Fishermans Reserve Account	0.8	1.3	1.3
Fishermans Fund Income	0.0	0.1	0.1
<b>Subtotal</b>	<b>63.4</b>	<b>59.8</b>	<b>61.1</b>
<b>Statutorily Restricted</b>			
Alaska Housing Finance	103.0	85.6	88.0
University of Alaska	154.7	190.9	211.6
Science & Technology Endowment Income	13.0	12.2	13.2
Marine Highway System Fund	73.9	76.2	74.5
Children's Trust Fund Earnings	0.3	0.4	0.4
Alaska Industrial Dev & Export Authority Receipts	16.0	26.0	18.5
Alaska Municipal Bond Bank Receipts	0.3	0.5	0.5
Intl Trade and Business Endowment Income	0.5	0.8	0.8
Postsecondary Education Dividend <sup>(2)</sup>	0.0	0.0	1.5
Other	63.9	79.3	87.2
<b>Subtotal</b>	<b>425.6</b>	<b>471.9</b>	<b>496.2</b>
<b>Trusts</b>			
Exxon Valdez Oil Spill Settlement	13.8	11.4	7.3
FICA Administration Fund Account	0.1	0.1	0.1
Public Employees Retirement Fund	21.5	25.0	25.7
Teachers Retirement System Fund	11.0	12.8	12.8
Judicial Retirement System	0.1	0.2	0.1
National Guard Retirement System	0.1	0.1	0.2
Alyeska Settlement Fund	0.4	0.0	0.0
Mental Health Trust Authority Authorized Receipts	7.5	10.2	14.8
Mental Health Trust Administration	0.8	0.9	0.9
Exxon Valdez Oil Spill Restoration Fund	0.1	0.0	0.0
<b>Subtotal</b>	<b>55.4</b>	<b>60.7</b>	<b>61.9</b>
<b>Total</b>	<b>1,573.4</b>	<b>2,363.5</b>	<b>2,308.1</b>

<sup>(1)</sup> Bond authorizations are excluded. Bond sale proceeds in FY 1999 totalled \$378.8 million in FY 1999; the Governor has proposed \$719 million in FY 2001.

<sup>(2)</sup> Alaska Commission on Postsecondary Education (ACPE) estimate.

## Federal Revenue

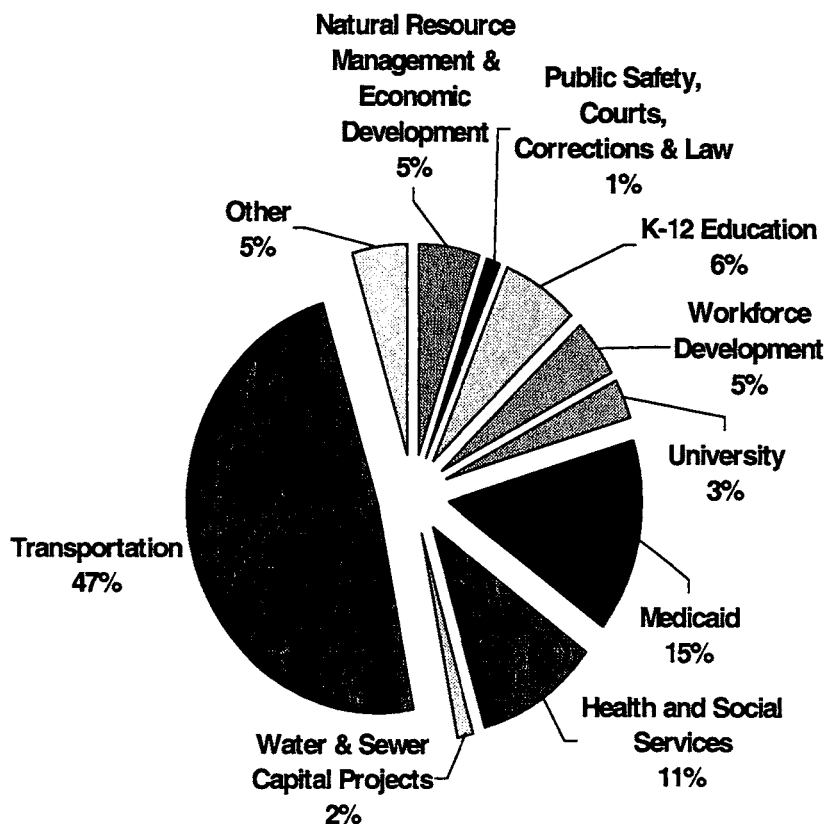
Several days after publication of the Department of Revenue's Fall 1999 Revenue Sources Book, the Department of Administration released its FY 1999 Comprehensive Annual Financial Report (CAFR) for the State of Alaska (December 15, 1999). Most of the revenues listed in the sources book are easily reconciled to the CAFR, including general fund unrestricted revenue, as well as restricted oil and gas and restricted investments.

That leaves only restricted Non-Oil Taxes, User Fees and Federal Funds (NoTUFF). Here the reconciliation is not so simple. The largest single item, restricted federal funds, in the Fall 1999 Revenue Sources Book showed \$1.376 billion, while the CAFR reported \$1.029 billion – a difference of \$347.2 million.

The difference is mostly a measurement difference that can be explained by the way these funds are appropriated. These funds must be appropriated twice – once by the federal government in Washington D.C. and once by the state government in Juneau. When the state legislature appropriates the funds they are in effect saying to an agency, "If you can get the money for your program from the federal government, we authorize you to spend it." Thus, the \$1.376 billion figure accurately reflects the dollars that the state legislature authorized the state government to spend in FY 1999, provided these funds actually came from the federal government. The \$1.029 billion figure from the CAFR represents the funds that were both actually received and spent.

Other differences arise from timing, lapses and the rollover from one fiscal year to the next. In presenting the larger revenue picture, it seems appropriate to use the actual expenditure figure for prior years instead of the amount authorized. The figures for FY 2000 and 2001 are not forecasts of the amounts that will actually be received and expended. Rather, they are the likely maximum amounts of federal funds the legislature will authorize the state government to spend.

**Figure 11. Breakdown of FY 2000 Authorized Federal Funding**  
\$1,771 Million



## **V. INVESTMENT REVENUE**

Fiduciaries for the state's investment funds establish an asset allocation for each individual fund. This process combines qualitative judgments about the individual fund's objectives, constraints and risk tolerance with the quantitative analysis of financial markets.

The design of the optimal portfolio results from a quantitative process using the tools of the Modern Portfolio Theory and the Capital Asset Pricing Model to convert estimates of future asset class performance into an optimal set of investment portfolios. The set represents portfolios with the highest expected five-year returns for any particular level of risk.

The critical inputs for the quantitative analysis are the capital market projections for the next five years. Both the Department of Revenue and the Permanent Fund Corporation employ an independent consulting firm to supply these capital market projections. The firm currently under contract is Callan Associates Inc.

A table depicting investment earnings revenue, actual FY 1999 and projected FY 2000-2001 is shown below.

**Table 18. Total Investment Revenue,  
Actual FY 1999 and Projected FY 2000-2001  
\$ Million**

	<b><u>Actual FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>
<b><u>Unrestricted</u></b>			
<b>General Fund Investments</b>	<b>46.5</b>	<b>44.8</b>	<b>45.5</b>
<b><u>Restricted</u></b>			
Constitutional Budget Reserve Fund	114.5	109.3	137.7
Permanent Fund Dividends <sup>(1)</sup>	1,044.9	1,165.3	1,195.2
Permanent Fund Inflation Proofing <sup>(1)</sup>	288.4	422.5	650.4
Required Deposits to Permanent Fund Principal <sup>(1)</sup>	41.0	33.0	33.0
GASB PF Revenues (Uncommitted)	804.0	769.2	280.8
Other Appropriations <sup>(1) (2)</sup>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>
<b>Subtotal</b>	<b>2,295.3</b>	<b>2,499.3</b>	<b>2,297.1</b>
<b>Total</b>	<b>2,341.8</b>	<b>2,544.1</b>	<b>2,342.6</b>

<sup>(1)</sup> These Permanent Fund investment revenues are either legally committed to or customarily used for the purposes listed here.

<sup>(2)</sup> Permanent Fund revenue used for oil and gas revenue-related matters.

# **Unrestricted Investment Revenue**

## **General Fund and Other Non-Segregated Investments**

The departments of Revenue and Administration have commingled assets of the General Fund with a large number of other governmental funds, managing them in a pool called the General Fund and Other Non-Segregated Investments (GeFONSI). The Department of Revenue, Treasury Division is responsible for investing the GeFONSI, and the Department of Administration maintains official accounting records for the assets of each of the funds in the investment pool.

The GeFONSI typically has a balance of about \$1 billion; the General Fund is the largest investor in the GeFONSI with a typical invested balance in the range of \$150 million to \$250 million.

# Restricted Investment Revenue

## Constitutional Budget Reserve Fund

Voters approved a constitutional amendment in 1990 requiring the state to deposit all proceeds from the resolution of oil and gas tax and royalty disputes into a new fund – the Constitutional Budget Reserve Fund.

The legislature may appropriate money from the CBRF to fund the operations of state government only under certain conditions. If, at any time, the amount of funds from other sources available to the legislature for appropriation is less than the amount appropriated to fund state government for the previous fiscal year, the legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the legislature may appropriate from the fund only with a three-fourths vote of the members of each chamber.

The constitutional provisions governing the CBRF require the General Fund to repay the money appropriated from the CBRF if and when there is a General Fund surplus at the end of any fiscal year. The General Fund does not pay interest on the money it has “borrowed” from the CBRF. As of March 31, 2000, the General Fund had “borrowed” \$3.9 billion from the CBRF.

**Table 19. Constitutional Budget Reserve Fund**  
\$ Million

The spring 2000 revenue forecast for the Constitutional Budget Reserve Fund is summarized below.

	Actual		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
<b>CONSTITUTIONAL BUDGET RESERVE FUND</b>			
Beginning Balance <sup>(1)</sup>	3,559.1	2,628.3	2,850.7
Earnings <sup>(2)</sup>	114.5	109.3	137.7
Petroleum Tax, Royalty Settlements <sup>(3)</sup>	55.4	460.0	80.0
Loan to GF (prior year)	(98.4)	(42.0)	0.0
Loan to GF (current year) <sup>(4)</sup>	<u>(1,002.3)</u>	<u>(304.9)</u>	<u>(412.9)</u>
<b>Ending Balance Available for Loan to GF</b>	<b>2,628.3</b>	<b>2,850.7</b>	<b>2,677.3</b>

<sup>(1)</sup> The FY 1999 activity reflects actual activity for the CBRF. Subsequent activity is estimated.

<sup>(2)</sup> The projected earnings rate for FY 2000, 2001 and 2002 is 5.6 percent. These projections are based on Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

<sup>(3)</sup> Settlement estimates are provided by the Department of Revenue and Department of Law and include interest and principal.

<sup>(4)</sup> The FY 2000 and 2001 CBRF draw projections do not represent final budget numbers.

## Alaska Permanent Fund

In 1976, voters established the Alaska Permanent Fund by constitutional amendment. The amendment requires that at least 25 percent of the state's mineral lease bonuses, rentals, royalties and federal mineral revenue-sharing payments be deposited into the fund. The amendment also requires "all income from the Permanent Fund must be deposited into the General Fund unless otherwise provided by law."

State statute sets out a formula for inflation-proofing the fund's principal and for paying annual dividends to all eligible Alaskans. Whatever earnings are left over each year remain in the Earnings Reserve Account. The fund's principal is protected by the constitution.

The legislature established the Alaska Permanent Fund Corporation (APFC) to manage and invest the fund's assets. The APFC is a public corporation managed by a board of trustees appointed by the governor.

There are several important changes from our fall forecast reflected in Table 20 on the next page. (See Table 39 on page 78 of our fall forecast for the corresponding table.) Our forecast for GASB Net Income for FY 2000 has increased from \$976 million to \$2.390 billion and our forecast of the market value of the fund at the end of FY 2000 has increased from \$25.153 billion to \$26.616 billion. These changes are the result of the performance of the financial markets since November.

The forecast for Statutory Net Income, the income figure used to calculate the amount of the Permanent Fund Dividend, has declined from \$2.276 billion to \$2.189 billion. This change results from reduction in the amount of the gains in market value we believe the Permanent Fund managers will actually realize this year.

A detailed explanation of the asset allocation and the return forecast procedures for the Permanent Fund are set forth on pages 74-77 of our fall forecast.

**Table 20. Alaska Permanent Fund**  
\$ Million

	<b>Actual FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
<b>PERMANENT FUND <sup>(1)</sup></b>			
<b><u>Principal</u></b>			
Beginning Balance	18,516.0	19,000.9	19,715.4
Dedicated Petroleum Revenue	155.5	259.0	263.2
Inflation-Proofing	288.4	422.5	650.4
Deposits to Principal	<u>41.0</u>	<u>33.0</u>	<u>33.0</u>
<b>End-of-Year Balance</b>	<b>19,000.9</b>	<b>19,715.4</b>	<b>20,662.0</b>
<b><u>Earnings and Earnings Reserve Account (GASB Income)</u></b>			
Earnings Reserve Account Beginning Balance	5,360.3	6,130.8	6,900.0
GASB Net Income <sup>(2)</sup>	2,147.3	2,390.0	2,159.4
Dividend Payout	(1,044.9)	(1,165.3)	(1,195.2)
Inflation-Proofing	(288.4)	(422.5)	(650.4)
Deposits to Principal <sup>(3)</sup>	(41.0)	(33.0)	(33.0)
Other Appropriations	<u>(2.5)</u>	<u>0.0</u>	<u>0.0</u>
<b>ERA End-of-Year Balance (GASB)</b>	<b>6,130.8</b>	<b>6,900.0</b>	<b>7,180.7</b>
<b><u>Earnings and Earnings Reserve Account (Statutory Income)</u></b>			
ERA Beginning Balance	1,388.8	2,590.4	3,158.6
Statutory Net Income	2,578.4	2,189.0	2,088.0
Dividend Payout	(1,044.9)	(1,165.3)	(1,195.2)
Inflation-Proofing	(288.4)	(422.5)	(650.4)
Deposits to Principal <sup>(3)</sup>	(41.0)	(33.0)	(33.0)
Other Appropriations	<u>(2.5)</u>	<u>0.0</u>	<u>0.0</u>
<b>ERA End-of-Year Balance (Statutory)</b>	<b>2,590.4</b>	<b>3,158.6</b>	<b>3,368.0</b>
<b><u>Market Value</u></b>			
Principal End-of-Year Balance	19,000.9	19,715.4	20,662.0
ERA End-of-Year Balance (Statutory Income)	2,590.4	3,158.6	3,368.0
End-of-Year Unrealized Earnings	3,540.8	3,742.0	3,813.0
Dividends Payable and Other Liabilities	<u>1,314.0</u>	<u>1,165.3</u>	<u>1,195.2</u>
<b>End-of-Year Balance (Market Value)</b>	<b>26,446.1</b>	<b>27,781.3</b>	<b>29,038.2</b>
<b><u>Reconciliation</u></b>			
Dividends Payable and Other Liabilities	<u>(1,314.0)</u>	<u>(1,165.3)</u>	<u>(1,195.2)</u>
<b>End-of-Year Balance (Market Value)</b>	<b>25,132.1</b>	<b>26,616.0</b>	<b>27,843.0</b>

<sup>(1)</sup> Source: Department of Revenue estimates.

<sup>(2)</sup> For FY 1999, net income is gross revenue of \$2,181.3 million summed from Table 1 less \$33.5 million in operating expenses.

<sup>(3)</sup> Deposits to principal include interest on royalty litigation settlement payments that cannot legally be used to pay Permanent Fund dividends.



In accordance with AS 37.07.060 (b)(4), the Revenue Sources book is compiled biannually by the Department of Revenue to assist the governor in formulating a proposed comprehensive financial plan for presentation to the Alaska State Legislature. Within the publication are shown prior year actuals, revised current year estimates and future year projections.

Anticipated state income is projected through the use of a number of data sources: (1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues; (2) a petroleum revenue model created by the department's Tax Division; and (3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this document.

The Department of Revenue complies with Title II of the Americans With Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the division's representative at (907) 465-3692 or (907) 465-3678 (TDD) to make necessary arrangements.

This publication was released by the Department of Revenue, Tax Division, 550 West Seventh Avenue, Suite 500, Anchorage, Alaska, 99501.  
(<http://www.revenue.state.ak.us/tax>)

It was printed at a cost of \$3.78 per copy to assist the governor in formulating a proposed comprehensive financial plan for presentation for the Alaska State Legislature, and printed in Anchorage, Alaska. This publication is required by AS 37.07.060.

Our Spring 2000 Revenue Sources Book is available on the web:

<http://www.revenue.state.ak.us/tax>

